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SIPDIS

SENSITIVE

STATE FOR AF/W
STATE FOR INR/AA
STATE PASS DOE FOR DAS JBRODMAN AND CGAY
STATE PASS TREASURY FOR ASEVERENS AND SRENANDER
STATE PASS DOC PHUEPER
STATE PASS EX-IM FOR JRICHTER
STATE PASS OPIC FOR CDUFFY
STATE PASS TDA FOR BTERNET

E.O. 12958: N/A
TAGS: [ECON](#) [NI](#)
SUBJECT: NIGERIA ECONOMIC UPDATE, JANUARY 2005

Reftel: Lagos 1611

[¶](#)1. (U) This economic update includes:
-- Banking Reform Effort Drives Industry Change
-- Power Sector Reform Bill
-- Recharge Card Import Ban Target Date Extended
-- A Nigerian Success Story: Expanding Cassava Operations

Banking Reform Effort Drives Industry Change

[¶](#)2. (U) Since the July 6 Central Bank of Nigeria (CBN) announcement of banking sector reforms that require banks to have a 25 billion naira minimum capital base by December 2005, banks have been busy formulating strategies to meet this goal. With the exception of approximately the ten largest banks, most banks will have to merge with others to meet the CBN requirement. Investment Bank and Trade Corporation (IBTC) Head of Trade Finance, Oluwande Muoyo told us recently that most merger candidates are identifying prospective partners. She added one might expect banks to reorganize their operations soon, given that there is only one year left to comply with the CBN's requirements. To ensure that safe, strong banks emerge from this process, management needs time to complete due diligence on potential partners. Most banks are still engaged in this process.

[¶](#)3. (U) Soon after the CBN announcement, a handful of banks quickly identified merger partners, and publicly announced their plans. Yet rumors are beginning to emerge that at least one of these agreements will fall through in the coming months. While banking stocks listed on the Nigerian Stock Exchange have been heavily traded during the last few months, bank share prices are in decline. Although industry observers are still positive about the CBN directive, believing the changes will lead to a stronger Nigerian banking sector, uncertainty remains the word of the day when it comes to the banking sector in Nigeria.

Power Sector Reform To Be Signed Soon?

[¶](#)4. (U) President Obasanjo may soon sign a long-awaited power sector reform bill into law. Awaited as a major tool in rehabilitating Nigeria's ailing power sector, the bill had been pending in the National Assembly since President Obasanjo's first term. The power sector reform act will establish a power sector regulatory agency to foster and oversee an enabling environment for private sector participation in the sector.
(Comment. The power that will be given the new regulatory body will play a large role in determining whether private sector firms will invest in this now crippled sector. End comment.)

[¶](#)5. (SBU) The law promises to break the monopoly enjoyed by the Nigerian Electric Power Authority (NEPA), the state-owned power company, which has utterly failed to deliver reliable electric power. Nigerians hope the law will encourage private sector suppliers to deliver efficient and constant power to residences and business firms. (Comment: In 2004 NEPA generated 4,000 MW at peak capacity output. President Obasanjo recently said 10,000 MW is needed to meet average national demand. The need for private investment in the sector is thus enormous. End comment.)

Recharge Card Import Ban Target Date Extended

16. (SBU) The Nigerian Ministry of Communications (MOC) recently announced that rechargeable telephone calling cards may be imported into Nigeria until March 31, 2005. An import ban on the cards was set to take effect January 1, 2005, but MOC officials have not implemented the ban, as functioning local recharge card production facilities do not yet exist. The MOC expects eight production facilities to be operational by the March 31 deadline. (Comment: We expect some recharge card production in Nigeria by March 31, but doubt that much high-quality production capability will be available by then. Cards could once again be in short supply, as they were in June 2004 (reftel). End comment.)

A Nigerian Success Story: Expanding Cassava Operations

17. (SBU) Chris Okeke, a partner in one of the largest private law firms in Nigeria, also cultivates 6000 hectares of cassava in four Nigerian states including Delta and Kwara States. Taking advantage of 150 hectares of cassava under cultivation that his father had left him, Okeke built two processing plants before realizing that the supply of cassava was problematic. He has since been integrating vertically, buying land to ensure an uninterrupted supply of cassava to his factories. He is now purchasing land in Oyo State, and expects to supply fully his processing facilities within the next two to three years.

18. (SBU) Okeke considers his agricultural philosophy -- hard work, investment in the land, and self-reliance -- the underpinning of sustainable development in Nigeria. He views the numerous business problems as challenges to be resolved using logic. A while back, for example, when "area boys" (unemployed thugs) demanded money, he trained and employed them on his farms. He said he seeks to profit from his processing facilities, and then sell sixty percent of the farmland he cultivates to farmers he has trained over the last few years. Okeke said offering the farmers the prospect of a reliable income is the only way to revive Nigeria's agricultural sector. (Comment: Okeke's initiative is notable, but not widely known. We plan to report other success stories showing Nigerian entrepreneurs diversifying Nigeria's economy. End comment.)

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